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SUBJECT: LNG Plans Delayed - Supply Problems Threaten Progress on
Guangdong's Second LNG Terminal

¶1. (U) Summary: High liquefied natural gas (LNG) prices and difficulty securing long-term LNG supplies have stalled the much-anticipated Zhuhai Jin Wan LNG terminal project. Without a secure, long-term supply contract, the National Development and Reform Commission (NDRC) refuses to give final approval to begin project construction. With its operational timeline facing the threat of further delays as the terminal struggles to identify a supplier, one can only wonder whether the realities of the global LNG market will derail China's plan to import 35 billion cubic meters of LNG by 2020. End summary.

Lack of a Long-term Supply Contract Stops Approval

¶2. (SBU) Planning for Zhuhai's new LNG terminal has all but halted pending approval from the National Development and Reform Commission. The NDRC refuses to give the project the go-ahead until China National Offshore Oil Corporation (CNOOC), one of the major shareholders in the project, is able to secure a long-term LNG supply contract; Guangdong's Development and Reform Commission (GDRC) approved the project in 2006. A senior executive on the project explained to us that the NDRC is determined to ensure that the terminal's natural gas supply is sustainable before construction begins, currently scheduled for 2013. With a continuing global LNG supply crunch, the requirement is proving to be the main challenge facing the Zhuhai project. While, several LNG terminals in Asia are moving forward with spot LNG purchases on the open market, Zhuhai Jin Wan is running out of options and struggling to get off the ground.

¶3. (SBU) In contrast, both of south China's existing LNG terminals, Dapeng and Fujian, rely on spot cargo to meet demand. For example, Fujian's LNG terminal accepted spot cargo from Egypt's Idku LNG Plant to begin operations; the NDRC permitted this because the Fujian terminal had previously signed a 25-year supply contract with Indonesia's Tangguh LNG Project, which was put on hold because of delays in the development of the gas field (reftel).

Guess Who? Negotiations Continue to Secure a Supplier

¶4. (SBU) Zhuhai Jin Wan's management is tight-lipped about its efforts to identify a long-term LNG supplier. In 2008, both Chinese and Iranian media reported plans by CNOOC to purchase three million tons of LNG annually from Iran for the Zhuhai project. The firm was reportedly negotiating a contract with Iran's National Iranian Oil Company for LNG sourced from Iran's North Pars Project. When asked about Iran as a possible supplier in the early April meeting, the Zhuhai project executive claimed that the firm was no longer considered Iran to be an option. The executive did, however, mention Qatar and Australia as possible sources, and indicated that ExxonMobil might be a potential supplier.

¶5. (SBU) The Zhuhai Jin Wan executive pointed out that higher prices had made negotiating a long-term contract more difficult. Although prices have fallen from their peak in mid-2008, the executive said that the current market for LNG is not as favorable as it was when its counterpart, the Dapeng terminal, signed its long-term contract; Dapeng is able to generate electricity at 0.5 Yuan/kWh. According to the Zhuhai Jin Wan executive, if Zhuhai were to sign a contract with Qatar under the terms most recently offered, it would be operating at 1 Yuan/kWh. The Local government has only authorized the grid company to pay Zhuhai's terminal 0.59 Yuan/kWh. While price remains a critical factor, at this point, the threat of further construction delays is increasing the urgency for Zhuhai Jin Wan to find a long-term supplier.

A Second LNG Terminal for Energy-Hungry Guangdong

¶6. (SBU) The Zhuhai Jin Wan LNG Ltd. terminal, located 60 km from

downtown Zhuhai, will be Guangdong's second, after the Dapeng project. It will consist of three phases: Phase I with a total capacity of 3.37 million tons, Phase II with a total capacity of 7.01 million tons, and Phase III with a total capacity of 11.87 million tons annually. With construction of Phase I expected to begin in 2013, it should be operational by 2017. The timeframe for the construction of Phase's II and III will be determined by local demand, and is expected to be in full operation by 2020, according to the senior executive with the project.

¶7. (SBU) Guangdong Yudean Group is CNOOC's major partner on the project, with 30% and 25% stakes respectively; the other 45% is made up of smaller-scale investors. Total investment in the terminal is expected to reach RMB 10 billion (USD 1.4 billion). Unlike Shenzhen's Dapeng terminal, Zhuhai's facility is entirely domestically owned.

Industry Will Fuel Demand, Not Residences

¶8. (SBU) In the long-term, the provincial government has made it clear that residential gas supply will be prioritized over industrial use. The Zhuhai Jin Wan executive tells us, however, that commercial enterprises and industry will be the largest customers for natural gas in Guangdong for the next five years. Once up and running, Zhuhai LNG terminal will supply natural gas to five cities -- Guangzhou, Foshan, Zhuhai, Zhongshan, and Jiangmen -- through a 294-km pipeline; expansion plans will include the city of Zhaoqing if there is enough demand. The terminal will also supply two power plants: China Guodian Corporation's Zhongshan LNG Power Plant and Guangdong Yudean Group's Xinhui LNG Power Plant.

¶9. (SBU) In the midst of the global economic downturn, demand for LNG in Guangdong has suffered due to a drop in demand for electricity. Demand had fallen so much that, the Dapeng terminal had not purchased LNG spot cargo between October 2008 and April 2009. According to media reports, Dapeng resumed purchases again in April with China's first spot LNG purchase from Russia through Royal Dutch Shell. Russia's Sakhalin II Project is expected to supply Dapeng with 50,000 tons of LNG.